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**PROJECT
HOME PROGRAM INCOME**

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PURPOSE

The HOME Investment Partnerships Program (HOME) is a federally funded program that was authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act in 1992. HOME is administered locally through the South Carolina State Housing Finance and Development Authority (Authority) but is managed nationally by the U.S. Department of Housing and Urban Development (HUD). During HUD administrative audits of HOME, the Authority has consistently received findings for not expending HOME program income (PI) according to federal regulatory requirements. Audit findings can lead to a number of detrimental factors; the least of which is issuing a response to the finding, the most of which is losing the privilege of locally administering HOME funds. The purpose of this project is to determine the best method for lawfully tracking and expending PI for the Authority according to federal regulations 24 CFR Part 92. PI is generally defined as income received by a HOME program administrator, like the Authority, directly generated from the initial use of HOME funds.

PROBLEM STATEMENT

HOME is audited by HUD every other year. August 2007 HUD initially discovered that PI had not been tracked and expended according to federal regulations, and an audit finding was issued. At that time it was discovered that there were millions of dollars of PI in an Authority account that had not been disbursed to other HOME eligible activities as required by the regulations.

The main problem was that neither the HOME program nor finance department staffs were tracking PI funds. The Authority did not have an exact accounting of how much was available, nor when or how much would be available in the future. PI is derived from activities undertaken with HOME funds for HOME eligible activities. Most HOME awardees are non-profits that receive grants from the HOME program; therefore, repayment is typically not required and PI is typically not generated by these participants. However, for-profits that apply for HOME funding are almost always awarded in the form of a loan. Most of these funds are repaid at an interest rate of one (1) to two (2) percent, 30 year amortizing loans. The principal as well as the interest earned on these loans are considered PI. Repayments of these loans are now tracked by our finance department in a system called "Trakker". The accumulation of these loan repayments is how the initial PI problem began. Once discovered, those dollars were quickly disbursed in an effort to correct the problem and comply with the regulations.

To quickly address the PI deficiency, Mortgage loans were created through the Authority's Single Family Homeownership program. This was done in an effort to get the PI spent in large amounts. HUD quickly ruled that not only did this strategy not meet the requirements of HOME, but it also generated more PI. Because of the hasty decision, the Authority currently has approximately 200 single family first mortgage loans that generate PI on a monthly basis.

It was at this point that the Authority made the decision to again disburse PI dollars to the Single Family Program but this time for use in providing down

payment and closing cost assistance to individuals or families at or below 80% of the area median income in which they live. For several years now, the Single Family Program has submitted draw requests for PI dollars much like participants in the regular allocated HOME program cycle. Implementation of this program has proven successful and numerous South Carolinians continue to benefit from it. However, even after successfully addressing the accumulation of PI; the HOME program continued to receive findings when audited by HUD for improperly tracking and expending PI funds. Federal regulations mandate that "old" federal funds must be spent before "new" or annually allocated federal funds; PI funds are essentially recycled funds and are therefore considered "old." The balances of PI funds were still not being spent before the Authority requested additional funds from the US Treasury. After careful deliberation with HUD officials, the Authority determined this "first in first out (FIFO)" federal rule is where the majority of PI problems seemed to occur. Therefore, a major goal of the Authority and the HOME program is to develop a strategy that addresses the "FIFO" issue and brings HOME into full compliance with federal regulations.

The HOME program receives a federal allocation of funds annually that are administered for both rental and homeownership activities through for-profit and non-profit participants. These participants apply for funding from HOME and if awarded, can provide eligible activities to include new construction, rehabilitation or down payment and closing cost assistance for low income individuals. As required by HUD, the HOME program uses a federal system called the "Integrated Disbursement Information System" (IDIS) which is

authorized for tracking and expending federal funds. IDIS is a tracking system; however, it is not an accounting system. Once Authority staff determines which projects will be awarded for that year, each project is then set up in the IDIS system. Each Applicant is given two (2) years to complete a project. The IDIS system is used for setting up the annual federal allocation of HOME funds, sub-granting the funds to various sub-grantees, setting up the various projects awarded, committing and expending those funds to the projects and then closing out those projects when completed. Participants request awarded funds through draw requests based on the percentage that the project is complete. A property inspection is completed to verify the progress. Each draw request is then entered into and processed through the IDIS system by HOME staff. Draw requests are then given to the Authority's finance department for further approval and disbursement of funds through the US Treasury. A check and balance system must be in place when disbursing federal funds and although the check and balance system could be accomplished by the same department, the Authority made the decision to separate the duties to the different departments as an additional precaution or safeguard.

In order to meet the HUD requirement of funds being committed to projects in a required timeframe, funds must be committed to a project at the beginning of the award process with regular HOME allocation funds. When it is time to draw funds for that project, which could be two (2) years after the commitment of funds and if PI funds are available, then the regular HOME allocation funds must be uncommitted in the IDIS system and PI funds must then

be committed and drawn for that project. Not only do those funds have to be un-committed, they must also be un-subgranted. This must all occur in order to use PI funds first. In order for HOME program staff to track disbursed PI and to assist in the tracking of committed and uncommitted funds, a never ending excel spreadsheet "checkbook" was established detailing the debits and credits as they occurred. This process may sound simple but HOME has hundreds of projects in process at any given time. Draws are requested daily and both Authority program staff and the finance department have specific job duties in drawing funds, whether from regular HOME allocation funds or from PI funds. Additionally, this process still does not comply with the regulatory requirement that funds must be spent first. Through numerous years of trial and error, the Authority has identified the specific problem so as to find the solution.

DATA COLLECTION AND ANALYSIS

The first thing that I needed to know was exactly what the PI regulation from 24 CFR Part 92 required, so I could ensure that all of the regulations were followed. My first priority was to obtain a copy (Exhibit A) of the exact regulation for PI expenditures located at 24 CFR Part 92.502(c)(2) and (3). Through research and general knowledge of HOME, I knew a HUD generated notice, (Exhibit B) CPD Notice 97-9, would also be important to have in-hand. Both Exhibits A and B are attached.

The next step was to identify how much PI the Authority would be accumulating and how often it would be received.

Currently, the Authority maintains records which adequately identify the source and application of HOME funds (including PI) as part of the financial transactions of the HOME program, consistent with generally accepted accounting principles and the requirements of 24 CFR Part 85.20 (Exhibit C). Additionally, the Authority must expend and account for HOME funds in accordance with State laws and procedures, as required by 24 CFR 85.20(a) (Exhibit C). Therefore, it was decided that finance staff would give HOME staff an accounting of PI, at a minimum, once a month. All parties, including HUD, were in agreement with this timeframe, with the understanding that the month that the HOME staff received the information was for the previous months accounting. Although this PI dollar figure was considered the most current information available at the time, it was later determined that the month timeframe was not reasonable.

I decided to put a timeframe on the data that I was collecting since the finance department was on a fiscal year basis and PI would be working on a calendar year basis. Therefore, I chose to collect the data for the six (6) month period of January 2010 through June 2010. Exhibit D shows a summary of the amount of PI that had accumulated and from which "pots of money". To define "pots of money", the loans that are made through the allocated multi-family HOME funds create PI as well as the loans created through the single-family HOME funds thereby creating various "pots of money" or income sources. The data captured on Exhibit D demonstrates that there was a total of \$1,465,788.44 of PI generated during the six month timeframe identified. Exhibit E shows that

these funds were receipted into the IDIS system for use first. Exhibit F is a copy of the "checkbook" used to establish the posting of the debits and credits as they occurred. The amount of PI shows that there is an average of \$244,298.08 monthly PI that needs to be disbursed. During this same timeframe a total of 90 draw requests totaling \$3,036,713 were processed. Because there were PI funds available, 47% or 42 draw requests had to be uncommitted and un-subgranted in the IDIS system and recommitted with PI funds. As a practical matter, one must understand that the IDIS system is not intuitive, nor does it contain a "process" that deals with the FIFO federal rule. Having said that, one might understand how this process can become wrought with mistakes and has become an accounting "nightmare".

It appears that this would indicate a very low success rate for accuracy not to mention the amount of staff time that is lost each time these transactions occur. It generally takes an average of twenty minutes to complete one transaction if the transaction needs to be funded with PI. If you multiply that time by the number of transactions in a month, you have a loss of fourteen (14) hours per month. Over a six (6) month period a total loss of eight-four (84) hours is substantial.

We must realize that program staff do not usually have, and are not required to have, a background in accounting. Their training, education and/or expertise may be in a number of different fields, including accounting. However, they are not necessarily financial experts, accountants or CPAs. I think it would even be a fair assessment to say that program staff is not qualified to handle the

daily management of millions of dollars. After an informal telephone survey, it has become clear to me that the majority of state and/or federal housing agencies do not have their program staff undertaking the financial portion of grants management.

IMPLEMENTATION PLAN

In order to improve the process and meet the federal requirements of HOME in regards to PI, the following must be done. One important step towards addressing the tracking and expending of PI would be to transfer all program accounting aspects to the Authority's existing finance department staff. However, until this could be accomplished, an improvement to the current process would be helpful. This could be accomplished by the Authorities finance staff providing daily updated amounts for PI. This would allow the HOME staff to receipt PI daily therefore allowing PI to be expended first.

All of the Authority's financial information is generated and managed through our finance department, finance staff has access to up to date information. It would only stand to reason that if a section were created within the finance department to handle program accounting for the numerous housing programs within the Authority, there would be more efficiency and accuracy for not just PI but all program accounting. The HOME staff has consulted with the Authority's finance department as to the possibility of them taking on this large endeavor for all development divisions of the Authority. Additionally, it appears that the Authority's executive staff are considering the possibility and are

determining exactly what it would entail to hire appropriate staff and train that staff on the IDIS system as well as on other systems.

The Authority should purchase a program accounting software package capable of addressing PI. Unfortunately, based on internet research and discussions with Georgia, Virginia and North Carolina Housing and Finance Authorities, there does not appear to be a software that fits the needs of program accounting for Housing Authorities that are administering federal programs. Further research is needed to determine if a software package that would provide a basic database, and that would be efficient in tracking basic sub-grantee information is available that could be shared across program lines. The software would need to include an accounting feature that tracks federal dollars for grants and the requirements of program income. It would also need to be used to communicate with other specific federal software such as the IDIS systems. However, if such a program is not available, the Authority would need to contract with a software developer to design software to meet the Authority needs.

However, if I were required to make a recommendation to implement a plan to address the PI issues I would begin by re-organizing the current system and have the Authority's finance department be responsible for tracking and expending the PI. In order to accomplish this goal, a new process should be established by first developing a plan and considering the timeframes in which the end results should take place. It would seem reasonable that this process could be accomplished within a twelve (12) month timeframe. It could then be completed by the ultimate goal of 2012 when another HUD audit of the HOME

program is required. Within the first month, key people from both the finance and program staff would outline the goals and objectives of the process. The types of activities and resources would be agreed upon and prioritized. By the end of month two a project plan would be approved by all parties involved and the plan would be implemented. This plan would include hiring a software developer that would design software giving the Authority the means of tracking sub-grantee information, tracking federal dollars and communicating with other federal software. There is one possible obstacle in designing software to be compatible with IDIS. HUD will not allow any software to link into IDIS; although IDIS is just a tracking system and not an accounting system, all federal funds are drawn through that system. Therefore, any data that would be needed in both systems would need to be entered twice. It would be necessary for the HOME staff to complete the initial authorization of funds for the projects, set-up the initial activities in the IDIS system to attain an activity number and to review draw requests for completeness before passing to finance for processing. The finance staff would be responsible for ensuring that the funds were drawn from the appropriate "pots of money" as well as ensuring that PI was spent first. By the end of the third month finance staff would be fully trained on the already existing IDIS system in order to process the PI effectively. This would also mean that the finance staff would need to process all the draw requests for the development division, not just PI, thus making the process more efficient. The progress of the entire plan would be monitored and the plan would be revised as necessary to

accomplish the goal. By the end of the twelve month period the project would be successfully completed on time and within the initial budget established.

In the meantime we need to continue to meet the requirements of the program. The Authority's finance department has begun implementation of the recommended changes until further processes are approved. The HOME program staff now receives daily reports (Exhibit G) of the current net PI cash that is available along with incremental receipts. The program staff can now receipt the PI into IDIS daily and spend first before regular HOME funds are drawn from the US Treasury. We are at last, meeting the regulatory requirements of the program by spending PI first.

EVALUATION METHOD

I believe that deadlines should be set in order to accomplish specific goals and timeframes set in which staff in both areas should be trained in order to show noticeable improvements in the process.

If the proposed process were implemented, it would then be important to evaluate that process. To accomplish this goal, a comparison would need to be performed of the timeframes in which funds are drawn from with US Treasury and when PI is receipted into the IDIS system. This could be performed on a quarterly basis to ensure that PI continues to be spent before funds from the US Treasury are draw, thus insuring that all goals are met.

On a monthly basis there would be reports that could be compared between the IDIS system and the new designed software that would be

evaluated to ensure that the appropriate draws were made with the appropriate "pots of money" to meet compliance.

SUMMARY AND RECOMMENDATIONS

It will take time to implement all of the recommended changes that need to take place. It is apparent that there is not a quick solution to a problem that has existed, in this case, almost 20 years. In order to become effective, it will take time and training for both the program and finance staff. However, it is necessary to realize that there can not be unlimited timeframes in which the transitions should occur due to the regulatory requirements of the federal government. Additionally, executive staff will need to support the recommendations which will involve upfront costs. Engaging a software developer is not an inexpensive endeavor, nor is creating new positions within the finance department for housing program financial management, especially considering the State's current financial situation.

If the recommended changes were made, there could be a considerable amount of staff time and money saved from the duplication of efforts when two departments are continuing to track funds and a process. Additionally, if the task were accomplished, a solution to the PI problem for the HOME program, the Authority and HUD would be solved. These changes are also necessary in order to achieve the ultimate goal of meeting the federal HOME program regulations of spending PI on a "FIFO" basis. The HOME staff could then concentrate on HOME eligible activities instead of dealing with HUD audit findings.

If these recommendations are not implemented, nor another solution found, the Authority could ultimately lose an invaluable tool, the HOME program, which promotes safe, decent, and affordable housing for all South Carolinians.

References

1. HOME Investment Partnership Program; 24 CFR Part 92
2. North Carolina Housing Finance Agency
3. Virginia Housing Development Authority
4. Georgia Department of Community Affairs

Exhibit A

d.

1. *Reductions.* HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amount of:
 - A. Any funds in the United States Treasury account that are required to be reserved (i.e., 15 percent of the funds) by a participating jurisdiction under § 92.300 that are not reserved for a community housing development organization pursuant to a written agreement within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement;
 - B. Any funds in the United States Treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement;
 - C. Any funds in the United States Treasury account that are not expended within five years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement; and
 - D. Any penalties assessed by HUD under § 92.552 of this part.
2. For purposes of determining the amount by which the HOME Investment Trust Fund will be reduced or recaptured under paragraphs (d)(1)(A), (B) and (C), HUD will consider the sum of commitments to CHDOs, commitments, or expenditures, as applicable, from the fiscal year allocation being examined from and from subsequent allocations. This sum must be equal to or greater than the amount of the fiscal year allocation being examined, or in the case of commitments to CHDOs, 15 percent of that fiscal year allocation.

§ 92.501 HOME Investment Partnership Agreement

Allocated and reallocated funds will be made available pursuant to a HOME Investment Partnership Agreement. The agreement ensures that HOME funds invested in affordable housing are repayable if the housing ceases to qualify as affordable housing before the period of affordability expires.

§ 92.502 Program Disbursement and Information System

- a. *General.* The HOME Investment Trust Fund account established in the United States Treasury is managed through a computerized disbursement and information system established by HUD. The system disburses HOME funds that are allocated or reallocated, and collects and reports information on the use of HOME funds in the United States Treasury account. [For purposes of reporting in the Integrated Disbursement and Information System, a HOME project is an activity.]

b. *Project set-up.*

1. After the participating jurisdiction executes the HOME Investment Partnership Agreement, submits the applicable banking and security documents, complies with the environmental requirements under 24 CFR part 58 for release of funds and commits funds to a specific local project, the participating jurisdiction may identify (set up) specific investments in the disbursement and information system. Investments that require the set-up of projects in the system are the acquisition, new construction, or rehabilitation of housing, and the provision of tenant-based rental assistance. The participating jurisdiction is required to enter complete project set-up information at the time of project set-up.
2. If the project set-up information is not completed within 20 days of the project set-up call, the project may be canceled by the system. In addition, a project which has been committed in the system for 12 months without an initial disbursement of funds may be canceled by the system.

c. *Disbursement of HOME funds.*

1. After complete project set-up information is entered into the disbursement and information system, HOME funds for the project may be drawn down from the United States Treasury account by the participating jurisdiction by electronic funds transfer. The funds will be deposited in the local account of the HOME Investment Trust Fund of the participating jurisdiction within 48 to 72 hours of the disbursement request. Any drawdown of HOME funds from the United States Treasury account is conditioned upon the provision of satisfactory information by the participating jurisdiction about the project or tenant-based rental assistance and compliance with other procedures, as specified by HUD.
2. HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.).
3. HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before requests are made for HOME funds in the United States Treasury account.
4. A participating jurisdiction will be paid on an advance basis provided it complies with the requirements of this part.

Exhibit B

U.S. Department of Housing and Urban Development

Community Planning and Development

Special Attention of: Notice: CPD 97-9

All Secretary's Representatives

All State/Area Coordinators Issued: September 12, 1997

All CPD Division Directors Expires: September 12, 1998

All HOME Coordinators

All HOME Participating Jurisdictions Cross Reference:

SUBJECT: HOME Program Income, Recaptured Funds, Repayments and CHDO Proceeds

I. PURPOSE

The purpose of this Notice is to provide guidance to HOME participating jurisdictions (PJs) on the requirements governing program income, recaptured funds, repayments and proceeds from CHDO set-asides.

II. BACKGROUND

The HOME program is authorized by Title 11 of the Cranston-Gonzalez National Affordable Housing Act (NAHA), as amended (42 U.S.C. 12701 et seq.). The purpose of HOME is to expand the supply of affordable housing for low- and very low-income families. The Act requires that any repayment of HOME funds drawn from a jurisdiction's HOME Investment Trust Fund, and any payments of interest or other return of investment of such funds, shall be deposited in the jurisdiction's HOME Investment Trust Fund account. Funds in the account may only be used for HOME eligible housing.

The Act further provides for a 15% set-aside of HOME funds for investment only in housing to be developed, sponsored or owned by

community housing development organizations (CHDOs). The HOME Final Rule gives participating jurisdictions the option of permitting a CHDO to retain proceeds resulting from the investment of its set-aside funds, provided the proceeds are used for housing activities to benefit low-income families.

The requirements of OMB Circular No. A-87 and those sections of 24 CFR part 85 specified in 24 CFR 92.505(a) apply to participating jurisdictions, State recipients and any governmental subrecipients receiving HOME funds. The requirements of OMB Circular No. A-122 and those

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sections of 24 CFR part 84 specified in 24 CFR 92.505(b) apply to subrecipients receiving HOME funds that are non-profit organizations that are not governmental subrecipients. States are also subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and 31 CFR part 205.

III. PROGRAM INCOME

Program income is defined for the first time in the September 16, 1996, HOME Final Rule. However, program income requirements are not new and have a statutory basis. Program income is the repayment, interest and return on the HOME investment. Not all funds received by a participating jurisdiction are program income. However, for most participating jurisdictions, program income is the most significant category of funds received.

Program income may be generated by HOME assisted activities which are administered by a participating jurisdiction, subrecipient or State recipient, or by activities funded from matching contributions. Program income may also be generated by housing which is developed, sponsored or owned by CHDOs when the

participating jurisdiction requires the CHDO proceeds to be returned to the local HOME account. Funds generated by CHDOs are discussed more fully under Section VI. CHDO Projects: Proceeds, Program Income and Recaptured Funds.

A. DEFINITION OF PROGRAM INCOME

HOME program income is defined in the Definitions section of the HOME Final Rule at 24 CFR 92.2. Program income means gross income received by the participating jurisdiction, subrecipient or State recipient which is directly generated from the use of HOME funds (including HOME program income) and matching contributions. When program income is generated by housing that is only partially assisted with HOME funds or matching funds, the income shall be prorated to reflect the percentage of HOME funds or match used. Following is a list of examples. Please note that this is not an exclusive list.

- (1) Proceeds from the disposition by sale or long-term lease of real property acquired, rehabilitated, or constructed with HOME funds or matching contributions;
- (2) Gross income from the use or rental of real property, owned by the participating jurisdiction, State recipient, or a subrecipient, that was acquired, rehabilitated, or constructed with HOME funds or matching contributions, less costs incidental to generation of the income (Note: rental income from property owned by entities other than the participating jurisdiction, a State recipient or a subrecipient does not constitute program income);
- (3) Payments of principal and interest on loans made using HOME funds or matching contributions;
- (4) Proceeds from the sale of loans made with HOME funds or matching contributions;

- (5) Proceeds from the sale of obligations secured by loans made with HOME funds or matching contributions;
- (6) Interest earned on program income pending its disposition; and
- (7) Any other interest or return on the investment permitted under §92.205(b) of HOME funds or matching contributions (Note: this does not include recaptured funds, repayments or CHDO proceeds).

Income generated by a project which is funded with program income, is also HOME program income. Note that the Final Rule at 24 CFR 92.2 defines HOME funds as funds made available through allocations and reallocations, plus program income.

Also note that interest earned on funds in the participating jurisdiction's local HOME account or on HOME funds retained by subrecipients or State recipients also constitutes HOME program income.

If a jurisdiction is no longer a participating jurisdiction when the program income is received, the funds are not subject to the HOME program income requirements, pursuant to 24 CFR 92.503(a)(2).

B. ACCOUNTING FOR PROGRAM INCOME

Participating jurisdictions must maintain records which adequately identify the source and application of their HOME funds (including program income) as part of the financial transactions of their HOME program, consistent with generally accepted accounting principles and the requirements of 24 CFR part 85.20. States which are participating jurisdictions must expend and account for HOME funds in accordance with State laws and procedures, as required by 24 CFR 85.20(a). States are also

governed by the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and 31 CFR part 205 which prescribe rules and procedures for the transfer of funds between the Federal Government and States, including interest accrual provisions.

The participating jurisdiction is not required to identify program income by program funding year. However, the participating jurisdiction must be able to identify which projects generated program income and which projects received program income, including the amount. The participating jurisdiction must also be able to reasonably predict anticipated program income during the next program year. Thus, the participating jurisdiction's financial management system should enable the PJ to track program income receivable (such as the amount and date of principal and interest due on a HOME loan). The participating jurisdiction is responsible for ensuring that the required program and financial records are maintained for both HOME assisted projects which it administers and projects which are administered by its State recipients or subrecipients. 24 CFR 92.508 identifies the records which must be maintained.

C. INTEREST EARNED ON HOME ACCOUNTS

The HOME Final Rule and 24 CFR Part 85 do not specify whether the participating jurisdiction's HOME account must be interest bearing. In accordance with 24 CFR 92.502(c)(2), HOME allocation funds drawn from the U. S. Treasury account must be expended for eligible costs within fifteen days from the date the funds are drawn down.

Participating jurisdictions which are not States may retain interest earned on HOME funds drawn down from the U.S. Treasury,

provided the interest is earned within this fifteen day period.

The participating jurisdiction may retain any interest earned on other funds in its designated account (such as program income, recaptured funds and repayments) for eligible program costs, regardless of the time period during which the interest is earned.

Participating jurisdictions which are States are governed by the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and 31 CFR part 205.

D. EXCESS DRAWDOWNS

Any HOME funds which are drawn down in excess of cash needs must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account. In accordance with 24 CFR 92.502(c)(2), for participating jurisdictions which are not States, HOME funds which are drawn down and not expended for eligible costs within fifteen days of drawdown, must be returned to HUD. Any interest which is earned on these HOME funds after fifteen days, from the initial drawdown, belongs to the U.S. Treasury and must be promptly remitted to the Treasury at least quarterly (except that amounts up to \$1 00 per year may be retained for administrative expenses). Participating jurisdictions which are States are governed by the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and 31 CFR part 205.

E. DISBURSEMENT OF PROGRAM INCOME

HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before drawdown requests are made for HOME funds in the United States Treasury account, in accordance with 24 CFR 92.502(c)(3). Therefore, program income which is deposited into the local account must be used before additional HOME

allocation funds are drawn down. A participating jurisdiction may not draw down HOME allocation funds while allowing program income to accumulate in its local account. Available program income must be used to pay the next eligible program cost (or portion thereof).

Participating jurisdictions are not required to use extraordinary procedures to determine the amount of program income available at the time of a drawdown request. If the participating jurisdiction's accounting system reports on cash balances at reasonable, periodic intervals (not to exceed 30 days), then the participating jurisdiction can wait until its report is generated to determine the cash balance (including program income) on hand. The HOME program does not require that "excess" program income on hand at the end of a participating jurisdiction's program year be returned to its HOME Investment Trust Fund U.S. Treasury account.

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F. PROGRAM INCOME AND CONSORTIUMS

Program income derived from consortium activities undertaken by or within a consortium member unit of general local government is program income of the consortium. The Consortium Agreement may permit a member to retain program income for other HOME activities within that member's boundaries, provided the member uses the program income before additional HOME funds are drawn down for use within its boundaries. In accordance with 24 CFR 92.503(a)(3), any program income on hand when a consortium member terminates its participation in the consortium, as well as any future program income (accounts receivable), is program income of the remaining consortium (i.e. the participating jurisdiction) and may not be retained by the former consortium member.

G. SUBRECIPIENT AND STATE RECIPIENT PROGRAM INCOME

In accordance with 24 CFR 92.503(a)(1), a participating jurisdiction may authorize a subrecipient or State recipient to retain program income for additional HOME projects pursuant to a Written Agreement.

Any program income retained by a subrecipient or State recipient must be disbursed by that subrecipient or State recipient before it receives additional HOME funds. When determining whether there are funds available in a participating jurisdiction's Trust Fund local account, program income retained by its subrecipients and State recipients is treated separately. For example, program income which is available in the account of one State recipient would not prevent the State from drawing down funds for another State recipient or subrecipient which has no funds in its account.

Upon expiration of a Written Agreement, any program income on hand as well as any future program income (accounts receivable) must be returned to the participating jurisdiction, as specified in the Written Agreement.

The participating jurisdiction retains responsibility in accordance with 24 CFR 92.504(a) for HOME activities which are carried out by its subrecipients and State recipients. The participating jurisdiction must account for the source and application of HOME funds received by its subrecipients or State recipients. The participating jurisdiction must ensure that its subrecipients and State recipients meet the standards for financial management systems of 24 CFR Part 85.20 or 24 CFR part 84.21, as applicable, including controls for the receipt and expenditure of program income. The participating jurisdiction's Written Agreement with its subrecipients and State recipients should clearly identify the procedures to be followed.

Participating jurisdictions must carefully monitor each

subrecipient and State recipient to ensure adequate program performance in accordance with the terms of the Written Agreement. If a subrecipient or State recipient is accumulating a substantial amount of program income, the participating jurisdiction needs to take appropriate actions to address this performance issue. These actions may include requesting that the subrecipient or State recipient return the program income to the participating jurisdiction's Trust Fund local account.

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H. USE OF PROGRAM INCOME

The Resources Section of the Consolidated Plan's Action Plan must describe the Federal resources, including program income, which are expected to be available to address priority needs and specific objectives during the consolidated program year, pursuant to 24 CFR 91.220 for local governments, 24 CFR 91.320 for State governments and 24 CFR 91.420 for consortia. Participating jurisdictions must also describe the activities to be undertaken with the Federal resources which have been identified.

Activities assisted with HOME program income are treated the same as those assisted with the HOME allocation. All HOME program rules and requirements apply. For example, all costs financed with program income must be HOME eligible. The amount of program income must be included when calculating the total amount of HOME assistance for the purposes of allocating costs in accordance with 24 CFR 92.205(d) and designating Home-assisted units in accordance with 24 CFR 92.2520). In addition, the amount of assistance provided by program income must be included when determining compliance with the following requirements: 24 CFR

92.250(a) concerning the maximum per-unit subsidy amount; 24 CFR

92.250(b) concerning subsidy layering; 24 CFR 92.252(b)

concerning additional rent limitations; 24 CFR 92.252(e)

concerning applicable affordability periods for rental housing;

and 92.254 concerning applicable affordability periods for

homeownership housing.

1. PROGRAM INCOME AND REVOLVING LOAN FUNDS

The HOME program does not permit the establishment of Revolving Loan Funds. However, when a subrecipient or State recipient administers only one HOME activity (such as a rehabilitation loan program) and the participating jurisdiction has authorized that program income may be retained, the activity may operate in a manner which is similar to some Revolving Loan Funds. In such cases, program income is deposited directly into the State recipient or subrecipient account for use in funding additional HOME projects. All requirements governing the receipt and expenditure of HOME program income must be met in administering the funds in this account. These requirements include the prohibitions against drawing down additional HOME funds from the U.S. Treasury before using cash balances in the designated account, and accumulating program income. Participating jurisdictions may not authorize the establishment of multiple HOME accounts for the same subrecipient or State recipient in order to create "de facto" Revolving Loan Funds.

J. PROGRAM INCOME AND THE ADMINISTRATIVE COST CAP, CHDO SET ASIDE AND MATCHING CONTRIBUTIONS

The amount of program income deposited in the Trust Fund local account increases the amount a participating jurisdiction may expend on eligible administrative and planning costs. In accordance with 24 CFR 92.207, a participating jurisdiction may

use additional HOME funds for eligible administrative and planning costs in an amount up to 10% of the program income amount deposited in its Trust Fund local account during the program year. Only program income deposited in the local Trust Fund account may be included when making

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this calculation. Program income which is retained by State recipients or subrecipients may not be included, and therefore such income does not increase the amount of funds which may be used for administrative and planning costs. If the participating jurisdiction does not expend the full amount authorized for eligible administrative and planning costs during the program year, it may use any remaining balance during subsequent program years.

The amount of program income deposited in the Trust Fund local account during a program year is not included when calculating the minimum amount of HOME funds which must be reserved for projects which are developed, sponsored or owned by CHDOS. In accordance with 24 CFR 92.300(a), compliance with this requirement is based on reserving within 24 months, an amount for CHDO projects which is not less than 15% of the HOME allocation. Likewise, the amount of program income deposited during a program year does not increase the maximum amount of funds which may be used for CHDO capacity building [(24 CFR 92.300(b)], CHDO operating expenses (24 CFR 92.208) or CHDO project-specific technical assistance, site control and seed money loans (24 CFR 92.301).

The amount of program income deposited in the Trust Fund local account during a program year is not included when calculating the amount of required matching contributions. In accordance with 24 CFR 92.218, matching contributions must total not less

than 25% of the funds drawn down from the jurisdiction's HOME Investment Trust Fund Treasury account in that fiscal year (except for funds drawn for certain identified purposes).

K. PROGRAM INCOME AND INCOME TARGETING

In accordance with 24 CFR 92.216 "Income targeting: Tenant-based rental assistance and rental units", HOME funds made available during a fiscal year must be invested so that not less than 90% of all families receiving rental assistance or occupying rental units assisted from a fiscal year HOME allocation are families whose annual incomes do not exceed 60% of the median family

income for the area. When calculating whether the income targeting requirement has been met, program income must be included.

When program income is used in combination with HOME allocation funds for the same rental assistance or rental units, no separate record keeping for the program income investment is required.

For such activities, the income targeting requirement is met for the program income investment to the same extent that it is met for the investment of the fiscal year HOME allocation.

When the participating jurisdiction (or subrecipient or State recipient) funds a rental assistance activity or activities solely with program income, then the participating jurisdiction must document that the income targeting requirement has been met as follows. The participating jurisdiction must record all rental assistance activities which are wholly set-up or committed with program income during a fiscal year. Upon completion of these activities, the participating jurisdiction must record the income of the families receiving the rental assistance or occupying the rental units and combine this data with the data on families who are assisted with the corresponding fiscal year HOME allocation. The combined total of assisted families is then used

to determine whether the income targeting requirement has been met for the fiscal year HOME allocation plus program income.

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In accordance with 24 CFR 92.217 "Income targeting:

Homeownership", HOME funds made available during a fiscal year must be invested so that 100% of these funds are invested in dwelling units that are occupied by households that qualify as low-income families. When program income is used in combination with Home allocation funds for the same homeownership activity, no separate record keeping for the program income investment is required. When the participating jurisdiction (or subrecipient or State recipient) funds an entire homeownership activity or activities with program income, the participating jurisdiction must document that 100% of the program income funds have been used for homeownership assistance which meets the requirements of 24 CFR 92.217.

L. PROGRAM INCOME AND HOME DEADLINES

The amount of program income deposited and expended during a program year does not affect a participating jurisdiction's ability to meet the 24 month CHDO commitment deadline required by 24 CFR 92.500(d)(1), since compliance with this deadline is determined by the amount of HOME funds reserved regardless of whether future costs are paid with program income or the HOME allocation.

The amount of program income deposited and expended during a program year does not affect a participating jurisdiction's ability to meet the 24 month HOME funds commitment deadline required by 24 CFR 92.500(d)(2), since compliance with this deadline is determined by the amount of HOME funds committed regardless of whether future expenditures are funded with program

income or the HOME allocation.

The amount of program income deposited and expended during a program year does not affect a participating jurisdiction's ability to meet the 25% match requirement required by 24 CFR 92.218, since compliance with the matching requirement is based on the percent of HOME allocation funds drawn down from the jurisdiction's HOME Investment Trust Fund Treasury account during the fiscal year. Program income must be expended before additional HOME funds are drawn down from the Treasury.

However, the amount of program income may affect a participating jurisdiction's ability to meet the five year expenditure deadline required by 24 CFR 92.500(d)(3). Since program income must be disbursed before additional HOME funds are drawn down from the U.S. Treasury account, a participating jurisdiction with significant amounts of program income may find that it has an unanticipated balance of unexpended HOME allocation funds at the end of the deadline period. A participating jurisdiction must give careful attention to program design and management to ensure that it is able to expend both program income and its HOME allocation within the regulatory deadline timeframes.

M. C/MI AND PROGRAM INCOME

The Cash and Management Information System (C/MI) does not record the receipt of program income. Since program income is deposited in the Trust Fund local account (or retained by an authorized subrecipient or State recipient) and not in the U.S Treasury account, program income is not drawn down through the C/MI system.

A project is set-up in C/MI for the estimated amount of the HOME

funds which will be needed. The estimated amount of program income is not identified in the C/MI at project set-up since program income must be used to pay the next cost and can not be set aside for a specific project. Thus, it is difficult for a participating jurisdiction to estimate at set-up how much program income will be used to fund a project. Upon completion of a HOME rental or homeownership (but not TBRA) project, the actual expenditure of any program income is reported on the HOME Program Income line on the HOME C/MI Project Completion Report. At that time, any HOME allocation funds set-up but not expended (because program income was available or for other reasons) are available to commit to other HOME projects.

In the limited circumstances where program income may be used to fully fund a project, a participating jurisdiction may find it useful to set up a project in C/MI with at least \$1 of HOME allocation funds, in order to use the C/MI system to report the total use of HOME allocation and program income used for a completed project. There is no similar provision for TBRA since there is no TBRA completion report. In those cases where sufficient program income is available to fund an entire project, and the participating jurisdiction chooses not to set up the project in the C/MI system, the project would not be reported through C/MI. However, the project would be reported as part of the Consolidated Plan annual performance report.

A participating jurisdiction, subrecipient or State recipient may not allow program income to accumulate for the purpose of funding an entire project with program income, or for any other purpose.

A project may be fully funded with program income only if full expenditure will occur immediately (for example, a down payment assistance project which is set-up the day before the closing) or in the case of certain subrecipient or State recipient activities (see Section III. I. Program Income and Revolving Loan Funds).

Otherwise, the project must be set-up in C/MI for the estimated amount of HOME funds that are needed for the project.

N. IDIS AND PROGRAM INCOME

The CPD Integrated Disbursement and Information System (IDIS) is designed to record the receipt and use of HOME program income.

Note that HUD through IDIS does not actually collect or disburse

the program income. A participating jurisdiction sets up a Program income Fund through IDIS to record the receipt of program income. Once the Program Income Fund is set-up, IDIS automatically applies the program income reported to the next activity or activities for which a drawdown is requested. Participating jurisdictions also have the option of correlating each program income receipt with the IDIS activity which generated the program income. The IDIS User Manual provides specific instructions on the IDIS program income process and identifies the various reports which can be generated.

O. PROGRAM INCOME AND MATCH

To be recognized as a cash contribution, matching funds must be non-federal and permanently contributed to affordable housing or to the HOME program. Therefore, in accordance with 24 CFR 92.220(a)(1), to receive match credit for the full amount of a loan to a HOME assisted project or to affordable housing that is not HOME assisted, all repayment, interest or other return of the investment from the match contribution must be deposited in

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the participating jurisdiction's HOME Investment Trust Fund local account (or in a designated subrecipient or State recipient account in accordance with the Written Agreement). If such funds are not deposited in the required account, the participating jurisdiction can not take match credit for the full loan amount. Requirements for how to determine the grant equivalent of such loans are set forth in 24 CFR 92.220(a)(1)(iii). Further guidance is provided in Notice CPD 97-03 "HOME Program Match Guidance" (as may be updated).

IV. RECAPTURED FUNDS

Recaptured funds are HOME funds which are recouped by the

participating jurisdiction (or subrecipient, State recipient or CHDO) when HOME assisted homeownership housing does not continue to be the principal residence of the assisted homebuyer for the full affordability period required by 24 CFR 92.254(a)(4). The amount of the recapture is determined by the recapture requirements established by the participating jurisdiction in accordance with 24 CFR 92.254(a)(5)(ii). In accordance with 24 CFR 92.503(c), recaptured funds must be deposited in the participating jurisdiction's HOME Investment Trust Fund local account, unless the participating jurisdiction permits a subrecipient, State recipient or CHDO to retain the recaptured funds pursuant to the Written Agreement required by 24 CFR 92.504. The Written Agreement must state that upon termination, recaptured funds must be returned to the participating jurisdiction.

Recaptured funds deposited in the local HOME account (or subrecipient, State recipient or CHDO account pursuant to the Written Agreement), become part of the HOME funds available for payment of the next program cost. Thus, recaptured funds must be used for eligible HOME activities in accordance with the requirements of the HOME statute and regulations, in the same manner as program income must be used (see guidance under Section III. Program Income). However, unlike program income, since recaptured funds represent a return of the original HOME investment, 10% of the recaptured funds may not be used for eligible administrative and planning costs.

The C/MI system does not provide for a separate tracking or accounting for recaptured funds. Participating jurisdictions which are using IDIS, must report recaptured funds as additions to the IDIS Program Income fund, in the same manner as program

income is reported. This ensures that IDIS automatically applies reported recaptured funds to the next activity or activities for which a drawdown is requested.

Participating jurisdictions must enforce the recapture agreements and account for the source and application of recaptured funds, in accordance with the record keeping requirements of 24 CFR 92.508. If a subrecipient, State recipient or CHDO is permitted to retain recaptured funds, participating jurisdictions must monitor to ensure compliance with all applicable HOME requirements and the terms of the Written Agreement.

Participating jurisdictions may establish affordability periods which exceed the minimum periods established by the HOME regulations. Any funds recouped after the period mandated by 24 CFR 92.254(a)(4) constitute program income.

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V. REPAYMENTS

Repayments are HOME funds which the participating jurisdiction must repay because the funds were invested in a project which was terminated before completion (either voluntarily or involuntarily), or invested in housing which failed to comply with the affordability requirements specified in 24 CFR 92.252 or 92.254. Repayments also include the repayment of project specific CHDO technical assistance, site control and seed money loans pursuant to 24 CFR 92.301, when the participating jurisdiction does not waive loan repayment and the project is terminated before completion.

In accordance with 24 CFR 92.503(b)(3), if the HOME funds were originally disbursed from the participating jurisdiction's HOME Investment Trust Fund U.S. Treasury account (i.e., the HOME

allocation), they must be repaid to the Treasury account. If the HOME funds were disbursed from the participating jurisdiction's HOME Investment Trust Fund local account (i.e., program income or recaptured funds), they must be repaid to the local account.

Repayments may not be made to a subrecipient, State recipient or CHDO account.

Repayments deposited in the local HOME account become part of the HOME funds available for payment of the next program cost. Thus, repayments must be used for eligible HOME activities in accordance with the requirements of the HOME statute and regulations, in the same manner as program income must be used.

(See guidance under Section III. Program Income). However, unlike program income, since repayments represent a return of the original HOME investment, 10% of the repayment funds may not be used for eligible administrative and planning costs.

The C/MI system does not provide for a separate tracking or accounting for repayment funds. Participating jurisdictions which are using IDIS, must report repayment funds as additions to the IDIS Program Income fund, in the same manner as program income is reported. This ensures that IDIS automatically applies reported repayment funds to the next activity or activities for which a drawdown is requested.

Participating jurisdictions must enforce the repayment requirements. The participating jurisdiction must ensure that the full amount of any required repayment is made to the appropriate Trust Fund account, even when it is unsuccessful in obtaining the required repayment from a subrecipient, State recipient, CHDO, project owner, project developer or other entity.

VI. CHDO PROJECTS: PROCEEDS, PROGRAM INCOME AND RECAPTURED FUNDS

The HOME Final Rule at 24 CFR 92.300(a)(2) gives participating

jurisdictions the option of permitting CHDOs to retain any proceeds resulting from the CHDO's investment of its CHDO set-aside funds or requiring the CHDO to return these proceeds to the participating jurisdiction. Rental income which is generated by a CHDO-owned project does not constitute CHDO proceeds. Proceeds which are returned to the participating jurisdiction constitute HOME program income and are subject to all of the HOME program income requirements. Proceeds which the CHDO is permitted to retain are not HOME program income and, therefore, are not subject to the HOME requirements, except as described below. This option provides CHDOs with an equity stake in their projects.

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Examples of CHDO proceeds are funds resulting from: the permanent financing of a CHDO project which is used to pay off a CHDO financed construction loan; the sale of CHDO sponsored rental housing to a second non-profit; the sale of CHDO developed homeownership housing; the principal and interest payments from a loan to a buyer of CHDO developed homeownership housing.

Once CHDO proceeds are used, there are no further HOME requirements which must be met. Funds generated from the use of CHDO proceeds are not CHDO proceeds.

A. USE OF CHDO PROCEEDS

The CHDO must use any CHDO proceeds which it is authorized to retain, for HOME-eligible or other housing activities to benefit low-income families, as required by 24 CFR 92.300(a)(2). A participating jurisdiction may use its own definition of "low-income" family. Examples of affordable housing activities which may be funded with CHDO proceeds include: emergency repairs, project operating costs and reserves, housing refinancing costs, CHDO operating expenses and homebuyer counseling.

CHDO proceeds which are retained by a CHDO are not subject to the requirements of the HOME regulations, except for 24 CFR 92.300(a)(2). Thus, the Davis-Bacon Act, National Environmental Policies Act and Uniform Relocation Assistance and Real Property Acquisition Policies Act do not apply to the use of CHDO proceeds. However, because CHDO proceeds are derived from the expenditure of HOME funds, any activities which are funded with

CHDO proceeds may not be contributed as match.

B. WRITTEN AGREEMENT

The participating jurisdiction (or subrecipient or State recipient) must execute a Written Agreement with the CHDO in accordance with 24 CFR 92.504(c)(3). The Agreement must specify whether any proceeds resulting from the use of the CHDO set-aside, may be retained by the CHDO or must be returned to the participating jurisdiction (or subrecipient or State recipient).

If the CHDO proceeds are retained, the Written Agreement must identify the HOME eligible or other housing activities to benefit low-income families which will be funded with the proceeds, as well as any other requirements, such as expenditure deadlines, which must be met. The participating jurisdiction may establish more stringent requirements than those required by the HOME Final Rule. The Written Agreement also must clearly identify the records to be maintained by the CHDO and any reports which must be submitted. The participating jurisdiction must monitor the CHDO's compliance with the terms of the Written Agreement.

HOME requirements continue to apply as long as a CHDO receives and uses CHDO proceeds, even if the CHDO proceeds are received or used after the Written Agreement has expired. For example, if a CHDO's Written Agreement expires after a five year affordability period, but the CHDO has developed a project which includes a CHDO financed loan with a ten year repayment term, the HOME requirements governing CHDO proceeds apply to the

repayments received during the full ten year term. The participating jurisdiction's Written Agreement with the CHDO should identify the requirements which apply to any CHDO proceeds

which are received after the agreement's expiration date.

C. CHDOS ACTING AS SUBRECIPIENTS

If a CHDO is functioning in the capacity of a subrecipient, any funds generated from HOME assisted activity are program income and not CHDO proceeds. Therefore, such funds are subject to the HOME requirements pertaining to program income. The HOME Final Rule at 24 CFR 92.300(a)(1) clarifies that a CHDO, in connection with housing it develops, sponsors or owns using CHDO HOME funds, may provide direct homeownership assistance (e.g. downpayment assistance) and not be considered a subrecipient, at the option of the participating jurisdiction.

D. RECAPTURED FUNDS

CHDO proceeds do not include funds which are recaptured by the CHDO because the assisted homeownership housing does not continue to be the principal residence of the assisted homebuyer for the affordability period, as required by 24 CFR 92.254(a)(5)(ii).

Recaptured funds are subject to the requirements of 24 CFR 92.503(c). Recaptured funds must be deposited in the participating jurisdiction's HOME Trust Fund local account.

Participating jurisdictions may not authorize CHDOs to retain recaptured funds.

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- (6) Establishing additional prior approvals.
- (c) If an awarding agency decides to impose such conditions, the awarding official will notify the grantee or subgrantee as early as possible, in writing, of:
 - (1) The nature of the special conditions/restrictions;
 - (2) The reason(s) for imposing them;
 - (3) The corrective actions which must be taken before they will be removed and the time allowed for completing the corrective actions and
 - (4) The method of requesting reconsideration of the conditions/restrictions imposed.

Subpart C—Post-Award Requirements

Financial Administration

§ 85.20 Standards for financial management systems.

(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) **Financial reporting.** Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) **Accounting records.** Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) **Internal control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) **Budget control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) **Allowable cost.** Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) **Source documentation.** Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
- (7) **Cash management.** Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their

24 CFR PART 85

subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

(c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a pre-award review or at any time subsequent to award.

§ 85.21 Payment.

(a) **Scope.** This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

(b) **Basic standard.** Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.

(c) **Advances.** Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

(d) **Reimbursement.** Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and subgrantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or subgrantee may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement.

(e) **Working capital advances.** If a grantee cannot meet the criteria for advance payments described in paragraph (c) of this section, and the Federal agency has determined that reimbursement is not feasible because the grantee lacks sufficient working capital, the awarding agency may provide cash or a working capital advance basis. Under this procedure the awarding agency shall advance cash to the grantee to cover its estimated disbursement needs for an initial period generally geared to the grantee's disbursing cycle. Thereafter, the awarding agency shall reimburse the grantee for its actual cash disbursements. The working capital advance method of payment shall not be used by grantees or subgrantees if the reason for using such method is the unwillingness or inability of the grantee to provide timely advances to the subgrantee to meet the subgrantee's actual cash disbursements.

(f) **Effect of program income, refunds, and audit recoveries on payment.**

(1) Grantees and subgrantees shall disburse repayments to and interest earned on a revolving fund before requesting additional cash payments for the same activity.

(2) Except as provided in paragraph (f)(1) of this section, grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.

(g) **Withholding payments.**

(1) Unless otherwise required by Federal statute, awarding agencies shall not withhold payments for proper charges incurred by grantees or subgrantees unless—

(i) The grantee or subgrantee has failed to comply with grant award conditions or

(ii) The grantee or subgrantee is indebted to the United States.

(2) Cash withheld for failure to comply with grant award condition, but without suspension of the grant, shall be released to the grantee upon subsequent compliance. When a grant is suspended, payment adjustments will be made in accordance with §85.43(c).

(3) A Federal agency shall not make payment to grantees for amounts that are withheld by grantees or subgrantees from payment to contractors to assure satisfactory completion of work. Payments shall be made by the Federal agency when the grantees or subgrantees actually

Exhibit D

SCSHFDA PROGRAM INCOME RECEIPTS SUMMARY FISCAL YEAR 2009-2010

	<u>Jul-09</u>	<u>Aug-09</u>	<u>Sep-09</u>	<u>Oct-09</u>	<u>Nov-09</u>	<u>Dec-09</u>	<u>Jan-10</u>	<u>Feb-10</u>	<u>Mar-10</u>	<u>Apr-10</u>	<u>May-10</u>	<u>Jun-10</u>	<u>Total</u>
<u>Program Income</u>													
Pmts - SFAM Repay DPA & 1st Mortgages	66,011.75	63,336.42	69,093.85	66,529.25	62,389.97	69,404.10	71,468.36	71,715.13	74,570.34	70,549.85	75,679.37	73,950.92	834,719.31
Pmts - Multifamily Loans	196,404.26	172,056.82	177,915.31	235,797.74	137,912.95	197,179.02	160,812.67	186,201.77	175,086.07	178,439.53	151,770.82	172,833.06	2,144,410.02
Interest Earned On Deposits	184.98	161.49	171.55	87.03	100.84	190.53	115.24	136.93	179.30	107.81	83.82	67.45	1,566.97
Total Program Income	262,600.99	235,554.73	247,180.71	302,414.02	200,403.76	266,773.65	232,416.27	260,053.83	249,835.71	249,097.19	227,534.01	246,851.43	2,980,716.30
<u>Recaptures</u>													
SFAM Repay DPA & 1st Mortgages	5,658.00	7,758.89	3,955.40	13,950.43	3,782.75	5,622.92	7,731.40	17,335.79	10,139.69	20,421.22	10,240.06	109,030.07	215,826
Multifamily Loans	4,800.00	8,200.00	2,400.00	8,000.00	4,400.00	13,800.00	4,800.00	6,233.34	3,000.00	8,000.00	6,600.00	18,400.00	88,633.34
Forgivable DPA Loans	-	-	-	86,657.41	-	110,365.76	-	67,411.74	-	-	-	-	264,434.91
Repayment Of Grant Funds	10,658.00	15,958.89	6,355.40	108,607.84	8,182.75	129,788.68	12,531.40	90,980.87	13,139.69	28,421.22	16,840.06	127,430.07	568,894.87
Total Recaptures	10,658.00	15,958.89	6,355.40	108,607.84	8,182.75	129,788.68	12,531.40	90,980.87	13,139.69	28,421.22	16,840.06	127,430.07	568,894.87
Total Receipts	273,258.99	251,513.62	253,536.11	411,021.86	208,586.51	396,562.33	244,947.67	351,034.70	262,975.40	277,518.41	244,374.07	374,281.50	3,549,611.17

Balance Check

Exhibit E

User ID: C16080
User Role:
 Grantee
Organization:
 SOUTH CAROLINA

- Logout

Activity Funding
 - Search

Drawdown
 - Create Voucher
 - Search Voucher

Receipt
 - Add
 - Search
 - Search Accounts

Utilities
 - Home
 - Data Downloads
 - Print Page
 - Help

Links
 - PDF Viewer
 - Support
 - CPD Home
 - RAMPS
 - HUD Home

Projects/Activities

Funding/Drawdown

Grant

Grantee/PJ

Admin

Reports

Receipt

View Receipt

- **PROGRAM INCOME Receipt posted. Please note Receipt # 5012140 and Grant # M-09-SG-45-0100.**

[Return to Add Receipt](#)

Receipt Created For:
 SOUTH CAROLINA

Receipt Status:
 Original

Receipt Number:
 5012140

Associated Grant #:
 M-09-SG-45-0100

Receipt Program:
 HOME

Receipt Type:

Program Year:
 2009

IDIS Activity ID:

Source Type:
 SG

Matrix Code:


Fund Type:
 PI

Grantee Receipt #:

Amount:
 \$232,416.27

Comments:
 Program Income for January 2010

[Return to Add Receipt](#)

 Session Timeout

User ID: C16080
User Role:
 Grantee
Organization:
 SOUTH CAROLINA

- Logout

Activity Funding
 - Search

Drawdown
 - Create Voucher
 - Search Voucher

Receipt
 - Add
 - Search
 - Search Accounts

Utilities
 - Home
 - Data Downloads
 - Print Page
 - Help

Links
 - PDF Viewer
 - Support
 - CPD Home
 - RAMPS
 - HUD Home

Projects/Activities

Funding/Drawdown

Grant

Grantee/PJ

Admin

Reports

Receipt

View Receipt

- **PROGRAM INCOME Receipt posted. Please note Receipt # 5017509 and Grant # M-09-SG-45-0100.**

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Receipt Created For:
 SOUTH CAROLINA

Receipt Status:
 Original

Receipt Number:
 5017509

Associated Grant #:
 M-09-SG-45-0100

Receipt Program:
 HOME

Receipt Type:

Program Year:
 2009

IDIS Activity ID:

Source Type:
 SG

Matrix Code:

Fund Type:
 PI

Grantee Receipt #:

Amount:
 \$260,053.83

Comments:
 Program Income for February 2010

[Return to Add Receipt](#)

User ID: C16080
User Role:
 Grantee
Organization:
 SOUTH CAROLINA

- Logout

Activity Funding
 - Search

Drawdown
 - Create Voucher
 - Search Voucher

Receipt
 - Add
 - Search
 - Search Accounts

Utilities
 - Home
 - Data Downloads
 - Print Page
 - Help

Links
 - PDF Viewer
 - Support
 - CPD Home
 - RAMPS
 - HUD Home

Projects/Activities

Funding/Drawdown

Grant

Grantee/PJ

Admin

Reports

Receipt

View Receipt

- PROGRAM INCOME Receipt posted. Please note Receipt # 5017510 and Grant # M-09-SG-45-0100.

[Return to Add Receipt](#)

Receipt Created For:
 SOUTH CAROLINA

Receipt Status:
 Original

Receipt Number:
 5017510

Associated Grant #:
 M-09-SG-45-0100

Receipt
Program:
 HOME

Receipt Type:

Program Year:
 2009

IDIS Activity ID:

Source Type:
 SG

Matrix Code:

Fund Type:
 PI

Grantee Receipt #:

Amount:
 \$249,835.71

Comments:

Program Income for March 2010

[Return to Add Receipt](#)

User ID: C16080
User Role:
 Grantee
Organization:
 SOUTH CAROLINA

- Logout

Activity Funding
 - Search

Drawdown
 - Create Voucher
 - Search Voucher

Receipt
 - Add
 - Search
 - Search Accounts

Utilities
 - Home
 - Data Downloads
 - Print Page
 - Help

Links
 - PDF Viewer
 - Support
 - CPD Home
 - RAMPS
 - HUD Home

Projects/Activities

Funding/Drawdown

Grant

Grantee/PJ

Admin

Reports

Receipt

View Receipt

- PROGRAM INCOME Receipt posted. Please note Receipt # 5019164 and Grant # M-10-SG-45-0100.

[Return to Add Receipt](#)

Receipt Created For:
 SOUTH CAROLINA

Receipt Status:
 Original

Receipt Number:
 5019164

Associated Grant #:
 M-10-SG-45-0100

Receipt
Program:
 HOME

Receipt Type:

Program Year:
 2010

IDIS Activity ID:

Source Type:
 SG

Matrix Code:

Fund Type:
 PI

Grantee Receipt #:

Amount:
 \$100,000.00

Comments:

Program Income April 2010

PARTIAL *

User ID: C16080
User Role:
 Grantee
Organization:
 SOUTH CAROLINA

- Logout

Projects/Activities

Funding/Drawdown

Grant

Grantee/PJ

Admin

Reports

Receipt

View Receipt

- **PROGRAM INCOME Receipt posted. Please note Receipt # 5021009 and Grant # M-10-SG-45-0100.**

Activity Funding
 - Search

[Return to Add Receipt](#)

Drawdown
 - Create Voucher
 - Search Voucher

Receipt
 - Add
 - Search
 - Search Accounts

Utilities
 - Home
 - Data Downloads
 - Print Page
 - Help

Links
 - PDF Viewer
 - Support
 - CPD Home
 - RAMPS
 - HUD Home

Receipt Created For:
 SOUTH CAROLINA

Receipt Status:
 Original

Receipt Number:
 5021009

Associated Grant #:
 M-10-SG-45-0100

Receipt
Program:
 HOME

Receipt Type:

Program Year:
 2010

IDIS Activity ID:

Source Type:
 SG

Matrix Code:

Fund Type:
 PI

Grantee Receipt #:

Amount:
 \$149,097.19

Comments:

Program Income April 2010 (Partial)

[Return to Add Receipt](#)

User ID: C16080
User Role:
 Grantee
Organization:
 SOUTH CAROLINA

- Logout

Activity Funding
 - Search

Drawdown
 - Create Voucher
 - Search Voucher

Receipt
 - Add
 - Search
 - Search Accounts

Utilities
 - Home
 - Data Downloads
 - Print Page
 - Help

Links
 - PDF Viewer
 - Support
 - CPD Home
 - RAMPS
 - HUD Home

Projects/Activities

Funding/Drawdown

Grant

Grantee/PJ

Admin

Reports

Receipt

View Receipt

- **PROGRAM INCOME Receipt posted. Please note Receipt # 5021010 and Grant # M-10-SG-45-0100.**

[Return to Add Receipt](#)

Receipt Created For:
 SOUTH CAROLINA

Receipt Status:
 Original

Receipt Number:
 5021010

Associated Grant #:
 M-10-SG-45-0100

Receipt
Program:
 HOME

Receipt Type:

Program Year:
 2010

IDIS Activity ID:

Source Type:
 SG

Matrix Code:

Fund Type:
 PI

Grantee Receipt #:

Amount:
 \$227,534.01

Comments:

May 2010 Program Income

[Return to Add Receipt](#)

User ID: C16080
User Role:
 Grantee
Organization:
 SOUTH CAROLINA

- Logout

[Projects/Activities](#)

[Funding/Drawdown](#)

[Grant](#)

[Grantee/PJ](#)

[Admin](#)

[Reports](#)

Receipt

View Receipt

- **PROGRAM INCOME** Receipt posted. Please note Receipt # 5024072 and Grant # M-10-SG-45-0100.

Activity Funding
 - Search

[Return to Add Receipt](#)

Drawdown
 - [Create Voucher](#)
 - [Search Voucher](#)

Receipt Created For:
 SOUTH CAROLINA

Receipt Status:
 Original

Receipt
 - Add
 - Search
 - Search Accounts

Receipt Number:
 5024072

Associated Grant #:
 M-10-SG-45-0100

**Receipt
 Program:**
 HOME

Receipt Type:

Utilities
 - [Home](#)
 - [Data Downloads](#)
 - [Print Page](#)
 - [Help](#)

Program Year:
 2010

IDIS Activity ID:

Source Type:
 SG

Matrix Code:

Links
 - [PDF Viewer](#)
 - [Support](#)
 - [CPD Home](#)
 - [RAMPS](#)
 - [HUD Home](#)

Fund Type:
 PI

Grantee Receipt #:

Amount:
 \$246,851.43

Comments:

June 2010 Program Income

[Return to Add Receipt](#)

Exhibit F

Program Income Register

Date	Description	Received	Drawn	Balance
12/7/2009	Downpayment Program #5960		\$80,000.00	\$ 530,640.45
12/17/2009	Security Deposit Program #5984		\$4,861.00	
1/5/2010	Security Deposit Program #5992		\$6,514.00	
1/5/2010	Downpayment Program #5952		\$60,000.00	
1/5/2010	Downpayment Program #5991		\$110,000.00	\$ 349,265.45
1/13/2010	Security Deposit Program #6003		\$2,760.00	
1/13/2010	Security Deposit Program #6004		\$3,393.00	
1/13/2010	Security Deposit Program #6005		\$500.00	\$ 342,612.45
1/13/2010	Downpayment Program #6006		\$58,000.00	
1/19/2010	Security Deposit Program #6008		\$321.00	\$ 284,291.45
2/3/2010	Security Deposit Program #6027		\$765.00	
2/3/2010	Security Deposit Program #6026		\$612.00	
2/3/2010	Security Deposit Program #6024		\$690.00	
2/3/2010	Downpayment Program #6030		\$25,000.00	\$ 257,224.45
2/3/2010	Receipt Created #5009968	\$200,403.76		
2/3/2010	Receipt Created #5009969	\$266,773.65		\$ 724,401.86
2/5/2010	Downpayment Program #6033		\$30,000.00	
2/22/2010	Security Deposit Program #6043		\$3,145.00	
2/22/2010	Security Deposit Program #6044		\$1,400.00	\$ 689,856.86
2/23/2010	Draw cancelled and funds returned #6026	\$612.00		
2/26/2010	Downpayment Program #6045		\$10,000.00	
2/26/2010	Security Deposit program #6046		\$440.00	
3/8/2010	Security Deposit program #6056		\$550.00	
3/8/2010	Security Deposit program #6057		\$613.00	
3/8/2010	Downpayment Program #6058		\$25,000.00	\$ 653,865.86
3/8/2010	Receipt Created #5012140	\$232,416.27		\$ 886,282.13
3/18/2010	RA - TBRA PI		\$304.00	
3/23/2010	Downpayment Program #6073		\$35,000.00	
3/30/2010	Security Deposit program #6085		\$695.00	
	Receipt Created #5017509 (Feb PI)	\$260,053.83		\$ 1,110,336.96
3/31/2010	Pardue-Lancaster LP (drawn from PI per NF Act # 6059, 3/30/10, Voucher #5087372)		\$810,000.00	
	Receipt Created #5017510 (March PI)	\$249,835.71		
3/31/2010	RA - TBRA PI		\$3,374.00	

4/2/2010 Downpayment Program #6088		\$30,000.00		
4/16/2010 Security Deposit Program #6151		\$2,469.00		
5/14/2010 RA - TBRA PI #6163		\$6,638.00		
5/14/2010 RA - Security Deposit Program #6164		\$700.00		
5/17/2010 MRB - Downpayment Program #6167		\$72,000.00		
5/28/2010 RA - Security Deposit Program #6179		\$300.00		
5/28/2010 RA - TBRA PI #6178		\$6,263.00		
5/28/2010 MRB - Downpayment Program #6180		\$40,000.00		
5/26/2010 Receipt Created #5019164 (Apr PI Partial)	\$100,000.00			
5/26/2010 Southeastern Housing Foundation drawn from PI, Activity #5544 Voucher #5114335		\$400,000.00	\$	88,428.67
6/3/2010 Receipt Created #5021009 (Apr. PI Partial)	149,097.19			
6/3/2010 Receipt Created #5021010 (May PI)	227,534.01		\$	465,059.87
6/7/2010 City of Rock Hill (PI) Acitivity #5134 voucher 5119007		\$20,000.00		
6/7/2010 City of Rock Hill (PI) Acitivity #5228 voucher 5119231		\$19,659.57		
6/7/2010 City of Rock Hill (PI) Acitivity #5227 voucher 5118996		\$9,617.50		
6/7/2010 RA - Security Deposit Voucher #5118457		\$525.00		
6/25/2010 RA - TBRA PI #6189 voucher #5126808		\$6,701.00		
6/25/2010 MRB - Downpayment Program #6187		\$302,000.00		
6/25/2010 MRB - Downpayment Program #6188		\$106,000.00		
6/29/2010 Spartanburg HA #6079		\$216.37	\$	340.43

Exhibit G

SCSHA
HOME Program Income
Summary of Available Cash
Funds: 41379000 and 41379001
Date: 01/19/2011

Total Cash Balance Per G/L	<u>699,671.34</u>
<u>Less:</u>	
Loans Included as Cash by CG	(520,681.08)
<u>Undeposited Cash</u>	
Account 1000010576	(113,922.75)
Account 1000010577	-
Pending Accounts Payable per G/L	-
Pending Accounts Payable - Unprocessed	-
Current Cash Available - Net	<u>65,067.51</u>